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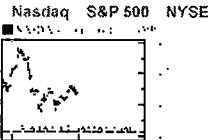
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Geithner Gives Strong
Dollar Lip Service, But
"Nothing Has Changed"
Says Strategist

AIG CEO Benmosche
Threatens to Leave

Luxuy Home Builder Toll
Brothers (TOL) Results
Shows Major
Improvement

Market Snapshot



Nasdaq	2164.26
+13.18	(+0.61%)
S&P 500	1098.24
+5.23	(+0.48%)
NYSE	7154.99
+28.57	(+0.40%)

Quotes delayed at least 20 mins

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CEO Wealthmeter

+144.27M
(+0.46%)
Holdings: 28.74B
Salary: 38.62K

Lawrence J. Ellison Oracle
Corporation
ORCL | News | Chart | Profile

+98.67M (+0.65%)
Holdings: 12.03B
Salary: 758.81K

Steven A. Ballmer Microsoft
Corporation
MSFT | News | Chart | Profile

+71.14M (+0.76%)
Holdings: 8.44B
Salary: Unknown

Eric Schmidt Google
GOOG | News | Chart | Profile

+46.87M (+1.35%)
Holdings: 3.59B
Salary: 82.31M

Michael S. Dell Dell Computer
Corporation
DELL | News | Chart | Profile

+38.28M (+1.31%)
Holdings: 3.35B
Salary: 150.00K

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Insiders' Blog

SIPC's Role In Madoff-Of-All-Scams Could Save The Stock Market

December 16, 2008 2:14 PM EST

Could the Bernard Madoff fraud actually help the stock market? 

The SIPC came out with a statement last night indicating that they will be involved in the Madoff situation. The SIPC maintains a special reserve fund authorized by Congress to help investors at failed brokerage firms. The SIPC reserves are available to satisfy the remaining claims of each customer up to a maximum of \$500,000, including a maximum of \$100,000 for cash.

It seems likely that most, if not all, of the statements Bernard Madoff delivered to clients were entirely bogus. Based on the SIPC mandate, it could be in the realm of possibility that the SIPC has to buy securities to replace those that were faked on statements delivered to Madoff clients.

Based on a conversations with the SIPC general counsel Josephine Wang, if clients were presented statements and had reason to believe that the securities were in fact owned, the SIPC will be required to buy these securities in the open market to make the customer whole up to \$500K each. So if Madoff client number 1234 was given a statement showing that they owned 1000 GOOG shares, even if a transaction never took place, the SIPC has to buy and replace the 1000 GOOG shares.

Imagine \$50 billion in net buying to the stock market, on behalf of the SIPC, to replace client's stocks that were never bought? While this likely won't happen to this extent, it is in the realm of possibility.

Ms. Wang indicated to us that the SIPC has a budget of just \$1.6 billion and a few credit lines worth \$2 billion total. While SIPC is a non-profit organization, they have indicated to us that they will try to make as many people as whole as possible. They claim to be free from any conflicts of interest, even if the amount needed would eclipse their budget. When asked if the Madoff claims came in at \$5 billion what would be done, Ms. Wang indicated to us that they could look to Congress for the money.

The SIPC said their involvement with the Madoff case strictly involves the broker-dealer. So, one of the main issues the SIPC trustee appointed to the Madoff case will have to address is how Madoff hedge fund clients and other investment management clients will be dealt with. Will they be protected? Also, if a hedge fund that invested in Madoff has 100 clients, will the SIPC pay out \$500K just to the hedge fund or \$500K to each of the 100 clients?

There are many questions that are still unanswered on the massive Bernie Madoff ponzi scheme, but it would be ironic if the biggest scam in history, that has hurt so many people, turned out to be a slight positive to the market. Our prayers are with all of those who have lost money having faith in Madoff and the system that has failed us.

Stocks Mentioned

Related Entities

- ^ Hedge Funds
- ^ Bernard Madoff



+14.63M (+2.99%)

Holdings: 480.13M
Salary: UnknownCarl H. Linder Chiquita Brands
International Inc
CQB | News | Chart | Profile

More CEO Wealthmeter

Audrey on Mar 29, 2009 03:59 PM

It is absolutely essential that we clarify Ms. Wang's position and then find out who Ms. Wang has to account to. For those who do not realize it, the SEC sanctioned Madoff several times and thus failed to protect the investors against fraud. The tax laws only go back 5 years.

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WHERE IS THE MONEY?

JOANNE on Jan 5, 2009 02:57 PM

What could have happened to all this money he took? I am sure not all of it went to pay dividends/interest? They should sieze all his assets, sell them and divide amoungst the people let out in the cold. I realize that people were taken by him, but also, they were a little greedy. Something too good to be true usually is.

Madoff and SIPC

Thomas Mullooly on Dec 19, 2008 10:50 PM

The purpose of the SIPC is to protect investors who have been damaged due to a brokerage failure...NOT fraud. Sadly, the SIPC is not designed for this situation. These losses are from theft, not from a brokerage failure. There are tax laws designed to allow write-off for nearly every dollar lost due to theft. This would ultimately be more valuable to investors than getting a potential \$500,000 back (whenever that may or may not happen) versus multi-million dollar losses.

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